

Members:

Rep. Thomas Kromkowski, Chair
Rep. Dan Stevenson
Rep. Lawrence Buell
Rep. Richard Mangus
Sen. Joseph Harrison
Sen. Thomas Weatherwax
Sen. Joseph O'Day
Sen. Allie Craycraft



PENSION MANAGEMENT OVERSIGHT COMMISSION

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Authority: IC 2-5-12-1

MEETING MINUTES

Meeting Date: September 9, 1998
Meeting Time: 10:00 A.M.
Meeting Place: State House, 200 W. Washington St., Room 404
Meeting City: Indianapolis, Indiana
Meeting Number: 2

Members Present: Rep. Thomas Kromkowski, Chair; Rep. Dan Stevenson; Rep. Lawrence Buell; Sen. Joseph Harrison; Sen. Thomas Weatherwax; Sen. Allie Craycraft; Steve Meno; William Gettings, Jr..

Members Absent: Rep. Richard Mangus; William Daniels; Connie Lux; Sen. Joseph O'Day.

Representative Tom Kromkowski, the Chair, called the second meeting of the Pension Management Oversight Commission (PMOC) to order at 10:05 a.m. The first order of business was the approval of the minutes from the previous meeting. The minutes were approved by consent.

1. Judge's Retirement System

The Chair then recognized Judge Mary Lee Comer, representing the Indiana Judges' Association. Judge Comer presented Preliminary Draft (PD) 3232, which includes several proposals concerning the Judges' Retirement System. This draft would add magistrates as participants in the Judges' Retirement System. Judge Comer commented that this part of the bill had a fiscal impact. Copies of the fiscal impact were provided to the PMOC.¹

PD 3232 also provides that a participant of the 1977 Judges' Retirement System and participants of the 1985 Judges' Retirement System is eligible for normal retirement benefits if the participant is at least 55 years of age and the participant's age in years plus service is at least 85. Judge Comer commented that this part of the bill had a fiscal impact. Copies of the fiscal impact were provided to the PMOC.¹ PD 3232 would allow participants in the Judges' Retirement System to purchase service credit for prior service in PERF-covered positions other than full-time commissioner, magistrate, or referee.

¹This document is on file in the Legislative Information Center, Room 230 of the State House, Indianapolis, Indiana, 46204. The telephone number of the Legislative Information Center is (317) 232-9856.

Judge Comer noted that she preferred the provisions in PD 3231 concerning the purchase of service credit to the provisions in PD 3232. She explained that the provisions in PD 3232 would allow for the purchase of service credit for time employed in PERF-covered positions, while the provisions in PD 3231 would allow for the purchase of service for time employed in any Indiana public employee retirement fund.

Judge Comer also noted that the purchase of service credit provisions would be changed so that they would require judges who purchase service credit to pay actuarial cost of the service credit purchased. Judge Comer commented that this part of the bill had a fiscal impact. Copies of the fiscal impact were provided to the PMOC.² PMOC members commented that the purchase of service should apply only to those judges who have not vested in a previous fund.

In response to a PMOC question, Judge Comer said that when a participant purchases service at actuarial cost, there would be no cost to the State.

PD 3231 also included a cost of living adjustment (COLA) for the Judges' Retirement System. This COLA would be equal to the COLA provided to members of PERF. Copies of the fiscal impact were provided to the PMOC.³ Judge Comer said that the COLA applies only to the 1985 Judges' Retirement System. She said that for the 1977 Judges' Retirement System, which does not have a COLA, benefits are tied to the current salary of judges. When the salary is increased for a judge, the retirement benefit also is increased.

Judge Comer commented that this PD limits the purchase of service to PERF-covered positions and that she would prefer the broader language in PD 3231. Because the PD provides for full actuarial cost, there would be no impact on the Judges' Retirement System.

2. PERF and TRF Issues

Representative Kromkowski next recognized Ms. Mary Beth Braitman of the law firm of Ice Miller Donadio and Ryan, the outside counsel to PERF and TRF. Ms. Braitman presented a section by section analysis⁴ of PD 3231, which is concerned primarily with PERF and TRF, but which also affects the Judges' Retirement System and the 1977 Police officers and Firefighters Fund. Ms. Braitman answered several PMOC questions on PD 3231.

3. Dual Service in Public Pension Funds, Mark Webb, Director of PERF

Mr. Mark Webb, Director of PERF, explained to the PMOC that the dual service question was brought to their attention earlier this year and involves several instances where PERF erroneously enrolled members who were already covered by different public pension plans. The erroneously enrolled members had participated in PERF for a significant amount of time. Mr. Webb told the PMOC that the approach contained in PD 3231 to address this problem is narrowly focused and sunsets January 1, 2000. Mr. Webb further commented that to attempt to address the problem of dual pension benefits in a more general manner would be difficult because of the lack of necessary data and information. In addition, Mr. Webb said that without better data, the safe approach to resolving the questions of dual pension benefits is to take the narrow approach as outlined in PD 3231.

4. Investment in Equities, Dr. Mary Pettersen of TRF and Mark Webb of PERF

Representative Kromkowski called upon Dr. Mary Pettersen, Director of TRF, and Mr. Webb, Director of PERF, to tell the PMOC about PERF and TRF's efforts with investment in equities. Dr. Pettersen and Mr.

²This document is on file in the Legislative Information Center (see footnote 1).

³This document is on file in the Legislative Information Center (see footnote 1).

⁴This document is on file in the Legislative Information Center (see footnote 1).

Webb provided the PMOC with two reports: A) "Portfolio Restructuring Status Report"⁵, and B) "Chronology of PERF and TRF Portfolio Restructuring."⁶ Ms. Braitman was called upon by the directors to comment on the investment in equities issue. Ms. Braitman stated that the status report was a snapshot of the Funds' activities. Ms. Braitman further commented that the target allocations were developed after consultations with the actuaries and the investment advisors for the two Funds.

A. TRF

In response to a question, Mr. Robert Newland, Investment Analyst of the TRF, told the PMOC that TRF began its initial investment in equities on August 5, 1998, with \$200 million. Mr. Newland also said that an additional \$202.5 million was invested in large cap stocks funds and \$60 million invested in small cap funds, both on September 1, 1998. In response to a question about the rate of return that would have been earned if the TRF had invested in September, 1997, instead of August, 1998, Mr. Newland said that the S&P 500 Index was up 10.3% during that time period and that the TRF portfolio had about the same return for that time period. Some PMOC members commented that one year was not enough time for any meaningful analysis, but, rather, one should look at least ten years out. Other PMOC members expressed concern that even if the results show good luck in the timing of the investment in equities, which led to results equivalent to the rate of return of the S&P 500 Index, they felt that the TRF should have invested the money earlier.

B. Mark Webb, PERF

Mr. Webb told the PMOC that it was the goal of the PERF Board of Trustees to move on a monthly basis toward the target allocation of 60% in equities and 40% in fixed income instruments. Mr. Webb said that PERF is investing approximately \$120 million per month. Mr. Webb also told the PMOC that at the next meeting, the PERF Board of Trustees will select mid-cap fund managers. Mr. Webb also stated that PERF will achieve its target allocation goal in the next 12 to 18 months.

6. Other Issues

Representative Kromkowski asked members of PMOC if there were any other issues which they would like to discuss. Senator Thomas Weatherwax said that he received a letter from a state employee asking him to look into having the State help pay for early retiree's health insurance. Senator Weatherwax said that the state employee had proposed that the PERF multiplier be increased to pay for a portion of early retiree health insurance. Ms. Braitman commented that the PERF multiplier is 1.1% and can be used only for the PERF pension. Senator Joseph Harrison commented that some states with a higher multiplier do not have Social Security coverage for their state employees.

Senator Allie Craycraft commented that he would like to see the PMOC recommend putting a lump sum into TRF and the Police officers and Firefighters Funds. Senator Harrison commented that it is a good idea, but it is difficult to predict the actual dollars that will be available.

Representative Lawrence Buell said that he would like to see the PMOC make a recommendation each year concerning the annual COLA for PERF and TRF. Representative Buell noted that the determination of the amount of annual COLA is an important public policy decision for the General Assembly, and he stated that it would be appropriate for the PMOC to be included in this determination. Senator Harrison and Senator Weatherwax said that whatever is done regarding a COLA for public employees, it must be fully funded. Senator Craycraft commented that it would be useful to recommend a specific dollar amount, even if the amount can't be achieved.

With no further business, Representative Kromkowski adjourned the meeting at 12:03 p.m.

⁵This document is on file in the Legislative Information Center (see footnote 1).

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